

**BOARD OF COUNTY COMMISSIONERS
AGENDA ITEM SUMMARY**

Meeting Date: March 15, 2006
Bulk Item: Yes XX No

Division: County Attorney
Staff Contact Person: Pedro Mercado

AGENDA ITEM WORDING:

Approval of modification of County purchasing policy and approval for purchase of Builder's Risk Insurance.

ITEM BACKGROUND:

At the October 2005 B.O.C.C. meeting, the Tower Group was awarded the Construction Manager-At-Risk contract for the construction of the Murray Nelson Government Center in Key Largo. Upon recommendation from the County's Risk Management consultant, the contract specifies that the County shall be responsible for the purchase of the Builder's Risk Insurance. The County currently uses Marsh USA as its insurance agent and it would be to the County's benefit, based on the recommendation of the County's risk management consultant (see attachment), to modify its purchase policy and purchase Builder's Risk Insurance through Marsh USA. Currently the estimated cost is approximately \$40,000.

PREVIOUS RELEVANT BOCC ACTION:

Approved the award of the Construct Manager-At-Risk contract to the Tower Group.

CONTRACT/AGREEMENT CHANGES:

N/A

STAFF RECOMMENDATIONS:

Approval

TOTAL COST: Approximately \$40,000

BUDGETED: Yes No XX

COST TO COUNTY: Approximately \$40,000

SOURCE OF FUNDS:

REVENUE PRODUCING: Yes No **AMOUNT PER MONTH** **Year**

APPROVED BY: County Atty ✓ OMB/Purchasing Risk Management

DIVISION DIRECTOR APPROVAL:


SUZANNE A. HUTTON, INTERIM COUNTY ATTORNEY

DOCUMENTATION: Included X Not Required

DISPOSITION:

AGENDA ITEM #

INTERISK CORPORATION

Consultants

Risk Management
Employee Benefits

1111 North Westshore Boulevard
Suite 208
Tampa, FL 33607-4711
Phone (813) 287-1040
Facsimile (813) 287-1041

February 24, 2006

Ms. Maria Slavik
Risk Management Specialist
Monroe County
502 Whitehead St.
Key West, Florida 33040

Subject: Builders' Risk Insurance for the Murray Nelson Government Center

Dear Maria:

In response to Pedro's request, the following estimates are provided for the cost of the Builder's Risk Insurance for the Murray Nelson Government Center.

All Risk Property

Pat Ibba has confirmed that the County's current Property insurers have agreed to add the Builder's Risk to the master program utilizing the same rates. Based on estimated "hard costs" of \$6,500,000 it is projected that the cost for the project will be approximately \$40,000. As you know the County's Property policy expires on May 1, 2006 and we are currently in the process of obtaining renewal proposals. The \$40,000 estimate anticipates a 30% to 35% increase in the County's premium. If the increase is larger than anticipated, the cost of the Builders' Risk will increase. Unfortunately, we will not know what the renewal premium is going to be until early April.

Wind Insurance

Since the County's Property Insurance has a \$1 million Wind deductible, it is recommended that a Citizen's policy be obtained. According to Sue Cherrybon of the Johnson's Insurance Agency, the cost of a Citizen's Wind policy will be \$21,987. This policy will have a 3% (\$195,000) deductible. Obtaining a lower deductible will be extremely difficult (if not impossible) and would cost significantly more.

Flood Insurance

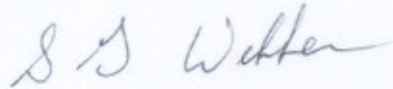
Since the County's Property Insurance has a \$500,000 Flood deductible, it is recommended that a policy from the National Flood Insurance Program (NFIP) be obtained. A cost for this policy cannot be provided until we furnish Porter Allen with a "Pre-Construction" Elevation Certificate. Once the certificate is obtained, Porter Allen should be able to develop a premium quickly.

Please forward a copy of this letter to Pedro and we will continue to monitor this issue and assist in placing the coverage once you have received formal authorization to bind coverage.

As always, please do not hesitate to call if you have any questions.

Cordially,

INTERISK CORPORATION

A handwritten signature in dark ink, appearing to read "S G Webber". The signature is fluid and cursive, with the first two letters of each name being capitalized and prominent.

Sidney G. Webber
CPCU, ARM

CC: Teresa Aguiar

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Risk Management
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Suite 208
Tampa, FL 33607-4711
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Facsimile (813) 287-1041

February 6, 2006

Ms. Maria Slavik
Risk Management Specialist
Monroe County
502 Whitehead St.
Key West, Florida 33040

Subject: Builders' Risk Insurance for the Murray Nelson Government Center and the Key West International Airport

Dear Maria:

The County's Property insurance policies provide limited protection for the construction of new facilities. This is consistent with industry standards. To provide insurance for buildings while they are being constructed, a Builders' Risk Insurance policy needs to be purchased. Either the owner of the new building or the General Contractor (Construction Manager) can purchase the policy. For both the Murray Nelson Government Center and the new terminal at the Key West International Airport, it is recommended that the County purchase and maintain the Builders' Risk for the following reasons.

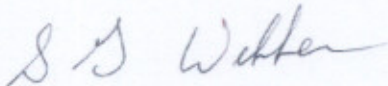
- 1) All forms of Property Insurance (including Builders' Risk) in Florida is becoming increasingly difficult to obtain. The County has established a strong relationship with its Property insurers and this relationship will aid in obtaining the necessary insurance.
- 2) By utilizing the County's existing Property insurers for the Builders' Risk, transferring the protection from the Builders' Risk policy to the County's main Property program, upon completion of the buildings, will be an easier administrative task.
- 3) Property policies (including Builders Risk) are designed to provide funds to restore damaged property to its pre-loss condition. The premium for Property policies is, in great part, based on the value of the property to be insured. When a building is first being constructed, certain items such as architectural fees and site preparation are an integral part of the construction costs, however would not necessarily need to be re-incurred following a loss. Likewise, certain components of a building have such a low probability of being damaged; they are excluded from the policy. Items such as building foundations and underground piping are examples. To control the cost of Property insurance, the value of a building should be adjusted to reflect these costs. Normally when a General Contractor is required to provide the Builders' Risk on a project, limits equal to the entire construction costs are obtained. This produces an artificially high premium. With the County acquiring the Builders Risk directly, they are in a much better position in controlling their costs.
- 4) If the County requires the General Contractor to purchase the Builders' Risk, the County loses control over the policy. One of Interisk's other clients relied on the General Contractor to obtain the Builders' Risk insurance for one of their construction projects. The project was delayed and the Contractor allowed the insurance to lapse. Attempts to find replacement insurance were unsuccessful. Fortunately, the client had a long and solid relationship with their Property insurer,

- who agreed to add the new property to the master program before a final Certificate of Occupancy (CO) was issued. Not all insurers would be as accommodating.
- 5) If the General Contractor obtains the Builders' Risk, any payments from the insurer would be directed to them. This could result in the County losing control of the project.
 - 6) Typically General Contractors inflate their costs by what is known as "Profit and Overhead". If the premium of the Builders Risk policy is part of these costs, the County could be subject to even higher costs.

As always, please do not hesitate to call if you have any questions.

Cordially,

INTERISK CORPORATION

A handwritten signature in blue ink, appearing to read "S G Webber".

Sidney G. Webber
CPCU, ARM

CC: Teresa Aguiar